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C O N F I D E N T I A L SECTION 01 OF 02 ATHENS 001060

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SUBJECT: DEPA AND BOTAS: CLOSE, BUT NO CIGAR

REF: ATHENS 1019

Classified By: A/DCM Clark Price for reasons 1.4 B and D

11. (U) This is a joint Embassy Athens-Embassy Ankara cable.

12. (C) Summary. Greek and Turkish natural gas companies DEPA and BOTAS are close to an agreement to supply Greece increased quantities of gas at a time of great Greek need. According to DEPA, two key issues remain outstanding: how BOTAS will compensate later in the year for increased quantities now, and whether BOTAS will lift the "quality" provision of the current bilateral supply contract during the period of increased gas flows. According to BOTAS, they are committed to helping Greece but believe that the Greek proposal for winter gas flows would require approval from the Turkish Energy Markets Regulator (EMRA), which could stall or at worst, scuttle the deal.

13. (C) According to DEPA President Papageorgiou, DEPA and BOTAS have agreed on increased flows of Turkish gas to Greece over a period of 20 days beginning as of the signing of an amended supply contract. Whereas the current contract specifies that BOTAS will send Greece 1.5 million cubic meters of gas per day (mcm/d), the amended agreement specifies that BOTAS will send a total of 3 mcm/d for the first ten days and 2.5 mcm/d for the second ten days. BOTAS will compensate for the 25 mcm of increased flows now by decreasing flows in December.

14. (C) The key disagreement between DEPA and BOTAS, according to the DEPA President, concerns the manner in which BOTAS will manage the December flow. DEPA prefers to take a set quantity that will remain unchanged throughout the month, while BOTAS prefers (according to Papageorgiou) to send the full amount of gas specified under the current, un-amended contract from December 1-15, and then stop the flow completely from December 16-31. Papageorgiou told Athens A/DCM that, while DEPA can certainly manage such a situation from a flow perspective, it will be exploited by TGI pipeline critics, who will claim that "Turkey has cut off Greek supplies again." He buttresses his argument by noting that the Greek pipeline management company must report gas flows on a daily basis to a wide-swath of GoG officials, some of whom will be happy to leak such information to the Greek press.

15. (C) BOTAS CEO Duzyol told Ankara A/ECON Counselor that changing the daily quantity of gas delivered to Greece would require the approval of the Turkish Energy Markets Regulatory Authority (EMRA). Duzyol said he is committed to helping Greece and wants to find a solution without seeking EMRA approval. Duzyol fears the EMRA process would stall the deal and risks inciting opposition. He pointed out that providing additional gas to Greece has opportunity costs. BOTAS is not a gas producer, to increase gas flow it must either buy more or forego usage elsewhere, such as reducing gas storage. Duzyol speculated that the opportunity costs of increasing gas to Greece could be played negatively in the press because Turkey is also facing an energy shortage. (Note: The shortage is related to electricity, not natural gas). In a subsequent conversation, BOTAS Head of International Projects Emre Engur clarified that doubling the gas quantity in one period (as proposed by BOTAS to help Greece in the immediate period) and zeroing it out in another (like in December) is an accounting fix that allows BOTAS to move ahead with the deal without EMRA approval. Engur also noted that Duzyol is personally working on this issue with BOTAS staff.

16. (C) Papageorgiou noted that there was one final area of disagreement between the two firms. BOTAS would like the amended contract to void the current contract's gas quality provisions for the 20 days of increased gas flow. DEPA is concerned that this could lead to problems between DEPA and its customers. Papageorgiou does not understand why the lifting of this provision is necessary, as he understands BOTAS has just now completed quality improvement works on the line to Greece.

17. (C) Ankara Comment: Given that the two parties have agreed on the main issue -- increasing gas to Greece; and that Duzyol says he is committed to helping Greece and is personally involved in the details of BOTAS proposals, the fastest way to resolve this issue is a Papageorgiou-Duzyol telephone call. The relationship between BOTAS and DEPA as gas supplier and consumer is new and there have been some problems but the two sides need to work together to build confidence and trust in each other. This is the best way to overcome future difficulties in what will be a long-term relationship.

18. (C) Athens Comment: Papageorgiou passed this information to the A/DCM to inform the Department about the current state of DEPA-BOTAS negotiations. He proposed as a next step a call from him to Duzyol to try to resolve the outstanding issues. In view of Embassy Ankara's insights outlined above, Embassy Athens will recommend to Papageorgiou that he proceed with this plan and let us know the outcome. If this does not work, we expect Papageorgiou to ask for USG assistance in prevailing upon BOTAS on political grounds not to cut off gas to Greece in December. He sees this as falling into the Gazprom strategy of painting Turkey as an "unreliable" supplier for Greece.

SPECKHARD